Unicorn
Investing with conviction

Unicorn Asset Management

UK Income Fund

Q1 2025 Team Commentary

Market Review

The first quarter of 2025 was a challenging period for UK equities, with small and mid-cap segments significantly underperforming large caps. The FTSE 250 and AIM Index were both weak compared to the FTSE 100's +6% return, reflecting acute pressure on smaller companies. Persistent core inflation and interest rates held at restrictive levels squeezed margins, while a sharp rise in UK gilt yields—mirroring global bond markets—drove up discount rates, heavily impacting the longer-duration growth assets prevalent in the small and mid-cap space.

The looming cost pressures from increases in employer National Insurance contributions and the minimum wage, set to take effect in April 2025, weighed heavily on confidence, particularly for labour-intensive small and mid-caps. Weaker trading updates triggered broad-based de-ratings, with cyclical sectors hit hardest due to their sensitivity to UK consumer and construction activity.

Despite government commitments to renewable energy and infrastructure, small and mid-caps in these growth areas were caught in the broader sell-off, reflecting subdued investor risk appetite. Globally, sentiment was unsettled by anticipated U.S. trade tensions, with markets pricing in tariff risks during Q1—though domestically focused small and mid-caps faced greater pressure from local cost concerns than international trade uncertainties.

Performance, Activity & Fund Commentary

The Unicorn UK Income Fund generated a quarterly return of -9.10% during the quarter, behind the UK Equity Income peer group which returned +1.32%. The Fund's underperformance was in part due to its long-standing overweight in cyclical stocks, which were hit by worsening sentiment, and heightened risk aversion amid inflation, rate hikes, and geopolitical tensions.

The Fund ended the period with 37 holdings following the addition of Young & Co's Brewery and disposal of Phoenix Holdings Group. Young's, a British pub chain operating nearly 220 pubs primarily in London and the Southeast was added due to strong financial performance and strategic growth. Phoenix Group Holdings, the UK's largest long-term savings and retirement provider, was exited to reallocate capital toward opportunities offering stronger income generation and greater potential for capital appreciation.

The largest negative contributions to performance came from Severfield, Conduit Holdings and Polar Capital Holdings. The shares generated negative total returns of -61%, -26% and -16% respectively, which combined cost the Fund 401 bps of performance.

- **Severfield:** a leading structural steel specialist, issued a profit warning in March as they continue to address softer market conditions, operational challenges alongside a leadership change with the CEO stepping down during the period. The company's underlying fundamentals remain sound, with continued pursuit of strategic opportunities and a strong long-term order book and deal pipeline. Additionally, the India joint venture continues to represent an attractive growth area for the business.

- **Conduit Holdings:** shares remain under pressure amid elevated earnings volatility following the LA wildfires. The company is actively addressing the issue by revising its hedging strategy to better protect earnings and NAV from secondary catastrophe aggregation. Management is also evaluating the quota share book and has secured additional reinsurance cover to mitigate further volatility amid early industry-wide losses.

➢ **Polar Capital Holdings:** a London-based specialist asset manager, reported a decline in assets under management (AuM), reflecting a tougher period amid market volatility; this was further compounded by Polar's significant exposure to the US and tech sectors, contributing to heightened pressure on AuM.

The leading positive contributor to performance during the period was Ocean Wilson Holdings. The diversified maritime and investment group expects to complete the sale of its 56% stake in Wilson Sons by Q3 2025, with plans for a post-sale tender offer of up to 20%. The board is actively reviewing the $595 million in proceeds for capital return and strategic allocation.

	YTD	2024	2023	2022	2021	2020	2019
UK Income Fund	**-9.1**	**2.0**	**7.8**	**-11.7**	**14.9**	**-11.8**	**31.3**
FTSE All Share Index (ex IT)	5.0	9.5	8.1	1.6	18.7	-11.4	19.0
IA UK Equity Income	1.3	8.7	7.0	-1.7	18.4	-10.7	20.1

Figures as at 31/03/2025

Past performance is not a guide to future performance, performance is based on returns net of fees. Your capital is at risk, the value of investments and the income from them may go down as well as up. Investors may not get back the amount of their original investment

Outlook & Positioning

Since the end of the period, global markets have been digesting the formal implementation of aggressive US trade measures. A 145% tariff has been imposed on imports from China, prompting retaliatory tariffs of 125%, while a 10% baseline tariff has been applied to most other countries. Additionally, new 25% tariffs have been introduced across targeted sectors including autos, steel, and certain electronics. While the UK is not directly targeted, its close economic ties to global trade partners mean it is exposed to indirect pressure through supply chains and capital flows.

Nonetheless, the UK may prove relatively resilient. As a services-led economy, it is less directly affected by goods-based tariffs than many of its peers, and it could benefit from playing a bridging role—both politically and commercially—between the US and EU. This shifting global dynamic may also create opportunities in areas aligned with the broader themes of reindustrialisation and supply chain diversification. If policy and capital flows begin to favour these trends, companies enabling reshoring and infrastructure build-out could stand to benefit. The Fund's overweight exposure to industrials positions it well in this context. In addition, the Fund's overweight to financials may be advantageous if capital begins to rotate away from the US and into other developed markets, including the UK.

While near-term volatility is likely to persist, recent market weakness has opened up valuation opportunities across several high-quality businesses. The Fund remains focused on resilient, well-managed companies and stands ready to respond to further shifts in the global macro and policy environment.

Important Information

Investing in smaller companies, including AIM listed companies and unlisted companies, can carry greater risks than those associated with larger capitalized companies. Your capital is at risk.

Except where otherwise stated, the source of the information in this document is Unicorn Asset Management.

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